



**Director of
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IRAN-IRAQ: Iranian Attack Fails

(Information as of 2300 EDT)

//Iran's attack against Iraqi forces east of Al Basrah achieved initial success but was beaten back by an Iraqi counterattack.//

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Comment: //Iran's repeated failures to sustain a breakthrough and its heavy losses in men and equipment have greatly diminished its chances for military success. Even when its infantry has overrun Iraqi frontlines, Iran has not effectively exploited the breakthroughs.//

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//Moreover, Iran's reserve of operational armored vehicles has been substantially reduced, and Iraq's superiority in armor has become overwhelming. Nonetheless, Iran shows no signs of stopping its offensive.//

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Political Developments

Iranian Assembly Speaker Rafsanjani said yesterday that the "essence of Iran's program is to crush Saddam Hussein" and that Iranian forces will "advance until the Iraqi people are free." He stressed Tehran's demands for reparations and warned the Persian Gulf states not to "engage in mischief."

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Comment: //Rafsanjani's remarks echo the hardline statements made by other senior clerics and military leaders since Iran's offensive began. Tehran probably will continue the fighting until its major demands are met and it feels confident that it has prevented the Nonaligned Summit meeting from being held in Baghdad in September. Nonetheless, Tehran is likely to continue to listen to mediation efforts.//

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ISRAEL-LEBANON: Another Cease-Fire

(Information as of 2300 EDT)

A cease-fire was reestablished yesterday after several hours of Israeli air and artillery attacks on West Beirut. Activity at Syrian Scud sites apparently is routine. The periodic outbreaks of heavy fighting, continued Israeli blockade of West Beirut, and Israeli suspicions of PLO intentions are posing strains on Lebanese-PLO negotiations.

The Israelis claimed late yesterday some Palestinian fire was continuing despite the most recent cease-fire.

The cease-fire arranged on Wednesday broke down completely when Israeli jets bombed sections of West Beirut, including the Fakhani sector, the sports arena, and areas along the Corniche al Mazra'ah. The attacks lasted approximately two hours and were accompanied by artillery and naval fire. Israel claims Palestinian forces had violated the cease-fire by firing mortars, rockets, and small arms at Israeli units on Thursday and early yesterday.

Israeli Chief of Staff Eytan holds Syria responsible for two firing incidents on Thursday between Israeli and Palestinian forces in the Bekaa Valley. Eytan threatened Israeli retaliation against the Syrians if there were more incidents.

The Israelis claimed earlier this week that increased activity related to the Scuds led them to believe the Syrians were preparing to use the missiles against Israeli targets.

Status of Negotiations

Prime Minister Wazzan yesterday threatened to suspend negotiations with Ambassador Habib if Israel maintains its blockade of West Beirut. The Israelis are preventing electricity, water, food, and fuel supplies from reaching the western sector.

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Comment: //PLO chief Arafat's submission of a departure plan to the Lebanese on Thursday has reinforced the belief of Wazzan and other Lebanese leaders that the Palestinians intend to leave Beirut. They realize, however, many tough issues remain unresolved. The Lebanese also believe the recent endorsement by the Arab League of a PLO departure indicates the Arab states are becoming more involved in the resolution of the crisis, enhancing prospects for the departure.//

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//From the point of view of Lebanon, the talks with the PLO are at a sensitive stage, and the Israeli blockade and military action threaten the progress Lebanese leaders believe already has been made.//

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//The Israelis, on the other hand, remain skeptical that the PLO has decided to leave Beirut. Palestinian leaders publicly continue to give conflicting signals, and the Israelis probably have received reports that PLO leaders are lying about their willingness to depart.//

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//The Israelis, therefore, believe they must keep pressure on the Palestinians. This includes a cutoff of supplies and a disproportionate retaliation for even minor PLO violations of a cease-fire agreement--as appears to have occurred yesterday.//

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PANAMA: New Government

//The resignation of President Royo and his cabinet yesterday should produce no serious disorder but may result in elections sooner than 1984.// [redacted]

Comment: [redacted]

[redacted] Royo had accepted a decision by senior National Guard officers that he should resign. Vice President de la Espriella's succession so far appears to be an orderly transition. Although some pro-Royo leftist groups may stage protest demonstrations, the Guard should be able to maintain control.// [redacted]

//National Guard Commander Paredes apparently decided to force Royo's resignation even though he had previously believed this would jeopardize his hopes to run for president in 1984. Paredes may take advantage of the resignations to hold earlier elections--a move he advocated in a press interview this week--before opposition parties can organize.// [redacted]

//A growing rift between Royo and Paredes over Panama's regional policies probably contributed to the resignation. Paredes and the Guard's General Staff may have disagreed with Royo over his call this week for the inclusion of Cuba in a separate Latin American security arrangement that would exclude the US. In addition, the Guard may cite economic problems under Royo as justification for the shakeup.// [redacted]

//De la Espriella, who is respected in the business community and considered more conservative than Royo, reportedly enjoys good relations with Paredes. Foreign Minister Illueca's appointment as vice president probably is designed to lessen his influence in the foreign policy area, while simultaneously placating his leftist backers.// [redacted]

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YUGOSLAVIA: Financial Crisis Looms

Belgrade could face a financial crisis before the end of the year. []

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[] central bank reserves may have fallen in recent weeks below \$500 million, equivalent to less than three week's of convertible currency imports and half the amount reported by Belgrade to the IMF at the end of June. Yugoslav officials recently have refused to discuss reserves [] Earlier, the Yugoslavs claimed that, without new Western credits, their only option for meeting debt service payments would be import cuts well beyond the 12 percent registered in the first half of the year. []

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Comment: Belgrade's ability to remain solvent during the rest of 1982 depends on foreign trade performance, the outcome of the tourist season, and its success in borrowing and tapping the foreign exchange reserves of regional banks, as well as the level of its central bank reserves. A shortage of earnings and credits would make it increasingly difficult for the Yugoslavs to cover their debt service payments in the next few months. []

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If Yugoslavia relies on even steeper import cuts to cover debt service, it risks serious declines in production and consumption. Belgrade's only other options are to seek assistance from Western governments or to ask its creditors for debt relief. US banks already hold \$2.7 billion in claims against Yugoslavia, more than double the amount owed them by Poland. []

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ZIMBABWE: Mugabe Threatens Opponents

//Prime Minister Mugabe on Thursday accused leaders of the Zimbabwe African People's Union of directing a wave of dissident attacks, including the kidnaping of six Western tourists, aimed at overthrowing his government. In a tough speech to parliament, Mugabe warned the government would apply "extralegal" measures to bring the security threat under control.

Comment: //Mugabe has been reluctant to move against Nkomo because his arrest might provoke a violent reaction from the Matabele people, Nkomo's traditional supporters. The Prime Minister also has argued that the evidence accumulated by his security forces might not be strong enough to gain a conviction. Mugabe may gamble that public reaction to the kidnapings will so weaken support for Nkomo that the government could proceed with a long show-trial--even if based on circumstantial evidence--without risking a major backlash.

GHANA: Radicals Make New Gains

Two moderate cabinet ministers were ousted this week in Ghana's first cabinet shakeup since Head of State Rawlings seized power last December. the regime also has appointed a flamboyant radical as administrator of a newly created National Defense Committee. The new committee will coordinate the activities of local committees that serve as the government's mass organization.

Comment: Conflict between radicals and moderates over the direction of the "revolution" recently has become more pronounced. The cabinet changes help the radicals, who have already gained control of the media and internal security and who are trying to push Rawlings to develop closer ties with Libya and Communist countries. Middle class Ghanaians believe leftists are using kidnapings and murder to intimidate their opposition, and a number of moderates have fled into exile.

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NORTH YEMEN - SOUTH YEMEN: Insurgent Withdrawals

[redacted] North Yemen and South Yemen are negotiating a step-by-step withdrawal of Aden-backed National Democratic Front insurgents from southern North Yemen. [redacted]

Comment: The regime in Sanaa has dealt the Front a severe blow. The Front probably will delay withdrawal from all of its remaining strongholds, however, because it needs bases near the border with South Yemen to support future subversion. Aden almost certainly wants to maintain a Front presence there as a security buffer. If Aden stalls the negotiations, North Yemeni President Salih will have to decide whether to undertake a costly military campaign to root out the Front, which would risk a clash with South Yemen. [redacted]

SPAIN: Decision on US Aircraft

//Madrid's decision last week to select the F-18A attack aircraft over the much less costly F-16 as the Air Force's combat aircraft for the late 1980s and 1990s probably was primarily influenced by the attractive arrangements offered by the manufacturer. The press reports that some \$1.8 billion will be invested in Spanish industry to permit it to coproduce portions of the aircraft.// [redacted]

Comment: //The F-16 is already being used by Belgium, the Netherlands, Denmark, and Norway. The advantages of using the same aircraft apparently was not a key factor. Air Force officials emphasized the F-18A's all-weather capability, longer range, and excellent handling in both the air-to-air fighter and ground attack roles. The Spanish evidently also believed that arguments concerning the ease of maintaining the F-16 implied that they could not use and support a more advanced aircraft.// [redacted]

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USSR - EQUATORIAL GUINEA: Soviet Overture

The USSR [] has reminded Equatorial Guinea of past Soviet aid and has urged it to act on pending agreements for further economic and cultural cooperation. Since the overthrow in 1979 of a Soviet-supported dictator, Equatorial Guinea has reduced the number of Soviet advisers from 250 to 35 and sought Western help in dealing with a possible security threat from the Soviets. []

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Comment: //President Obiang remains suspicious of Soviet intentions, and he is worried about the impact of 400 Soviet-educated Guineans, some occupying key government positions, on the stability of his regime. He is unlikely to agree to the Soviet request.// []

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